

Student Loan, Individual Differences, and Financial Anxiety During College: A Cross-Cultural Comparison

Soo Hyun Cho, South Dakota State University¹
Wei Gu, South Dakota State University²

With the collective student loan debt amassing \$1.3 trillion, the need for understanding student loan decision from a multiple angle is paramount. Previous research on student loan behavior mainly focused on the socio-demographic determinants within a single culture. However, individual differences including regulatory focus, financial literacy and expectation of economy may moderate the relationship between student loan ownership and financial anxiety among college students. The purpose of this research is to demonstrate a cross-cultural comparison of loan experience and individual differences between two colleges, one in the Midwestern area, and another in Seoul, Korea.

With significant portion of college students affected by student loan debt, finance is one of the top stressors for college students today. Grable, Park, and Joo (2009) noted cultural differences in personal factors that may influence one's financial management behavior and found that when locus of control, financial knowledge and income were controlled, Koreans managed personal finances more responsibly than Americans.

Regulatory orientation describes one's motivational direction with goal pursuit. Individual has a varying level of promotion or prevention foci. Promotion orientation is related to one's ideal self, motivation to get ahead and achievements in life, while prevention orientation is associated with ought self, thus regulated by obligations and being careful when pursuing a goal (Haws, Dholakia, & Bearden, 2010). This study aims to examine the cultural differences in these chronic measures. Furthermore, since prevention is related to being vigilant, it is hypothesized that prevention orientation is positively related to financial anxiety.

While significant body of literature exists on the importance of financial literacy or knowledge and lack thereof, the role of financial literacy on financial anxiety is mixed. For example, Archuleta, Dale, and Spann (2013) found no significant relationship between financial knowledge and financial anxiety among college students who sought peer financial counseling services. In this study, financial knowledge is expected to contribute to the level of financial anxiety students express.

Between Fall 2015 and Spring 2016, 900 undergraduate students in two universities were recruited to participate in a paper-and-pencil survey study. The sample was an active college students enrolled in either a Midwestern state university (U.S.) or a large private university in Seoul (South Korea). After cleaning the data, the final sample for US was 530, and Korean students were 320. Key survey questionnaire included consumption value, perception of one's economic status compared to peers, regulatory orientation, student loan sources and amount, financial stress, financial knowledge, and expectation about economy and job.

The dependent variable, Financial Anxiety, was measured by an average score of three items; 1) I feel stressed about my personal finances in general, 2) I worry about being able to pay my current monthly expenses, and 3) I worry about having enough money to pay for school. Each item was asked on a scale from 1 (strongly disagree) to 4 (strongly agree). Regulatory orientations were measured with the Regulatory Focus Composite Scale by Haws, Dholakia, and Bearden (2010). Demographic variables such as gender, age, employment status, income and allowances, parents' education, GPA, and academic major were included as well. All financial variables were converted to US dollar, using the 5-year average currency exchange rate.

The results of descriptive analysis of the final sample size of 850 showed significant group differences of demographics. The majority of sample from US were female, while 51% of Korean sample was male students. The U.S. sample had higher cumulative GPA than the Korean counterpart. Most U.S. students were working part-time, while most Korean students were not employed. More proportion of U.S. students (29.4%) worked more than 15 hours per week than that of Korean students (15.6%). The median monthly income was between \$200 and \$499 for both groups. However, a larger proportion of Korean students were receiving allowances from parents on a monthly basis (87.4% versus 57.7%).

U.S. students were significantly more affected by student loan (65.3%), compared to Korean students (22.6%). In general, American college students had higher level of financial anxiety than Korean

students. However, they were more optimistic about future financial situation (2.9 versus 2.5, $F=27.802$, significant at 0.01%) and viewed college as a good investment (3.1 versus 2.6, $F=17.405$, significant at 0.01%). Additionally, more proportion of U.S. student than Korean students thought their family finance were better than one years ago (47% versus 20%, $\chi^2=64.438$, significant at 0.01%) and they are more optimistic about the job (38.7% versus 7.2%, $\chi^2=100.812$, significant at 0.01%). In terms of regulatory orientation, U.S. students had higher levels of both Promotion and Prevention score than students in South Korea.

The Regression results showed markedly different factors associated with financial anxiety between American and Korean students. In the U.S., gender, mother's education level, having a student loan, GPA, current job availability, optimism and prevention orientation were associated with financial anxiety. Specifically, being a female, having a lower GPA, owning a student loan, and mother's education less than Bachelor's degree were significantly associated with higher level of financial anxiety. On the other hand, allowance money, student loan, and perceived value of college explained financial anxiety experienced by Korean college students. Specifically, respondents with student loan had higher financial anxiety than those without student loan. If students received monthly allowances above \$200, the level of financial anxiety was lower than those who had lower monthly allowances. Lastly, the more students perceived the college as good investment for future, the lower the level of financial anxiety was.

In sum, this study found that there were significant differences in financial anxiety and student loan behavior between U.S. and Korean college students. In general, American students had higher financial anxiety than Korean students. However, U.S. students were also more optimistic about future economy and financial situations than the Korean counterparts. While the percentage of students affected by student loan differed, owing student loan was a common contributor to the financial anxiety. It is noticeable that more psychological factors were related to financial anxiety among U.S. context, but having the parental support seems to be largely important factor explaining anxiety in the Korean context.

The findings of this study highlight the need to understanding differential association between psychological factors and the financial anxiety across culture. This has an important implication when developing a campus-based financial wellness programs. Cultural differences need to be taken into consideration to address financial anxiety. In the U.S., efforts to acknowledge the student's regulatory focus (i.e., prevention) and optimism about the future may be effective to alleviate the financial anxiety. On the other hand, improving the perceived value of college may be more effective to address financial anxiety among Korean students.

References

- Archuleta, K. L., Dale, A., & Spann, S. M. (2013). College students and financial distress: Exploring debt, financial satisfaction, and financial anxiety. *Journal of Financial Counseling and Planning*, 24(2), 50-62.
- Grable, J. E., Park, J.-Y. & Joo, S.-H. (2009). Explaining Financial Management Behavior for Koreans Living in the United States. *Journal of Consumer Affairs*, 43: 80–107. doi: 10.1111/j.1745-6606.2008.01128.x
- Haws, K. L., Dholakia, U. M., & Bearden, W. O. (2010). An assessment of chronic regulatory focus measures. *Journal of Marketing Research*, 47(October), 967-982.

¹Associate Professor, Department of Consumer Sciences, South Dakota State University, Brookings, SD 57006, United States. Phone: 605-688-5835. Email: Soohyun.cho@sdstate.edu.

²M.S. student, Department of Sociology, South Dakota State University, Brookings, SD 57006, Email: wei.gu@jacks.sdstate.edu.